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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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In the Matter of)
Simplification of the Depreciation) CC Docket No. 92-296
Prescription Process)

REPLY COMMENTS OF BELL SOUTH

BellSouth Telecommunications, Inc. ("BellSouth") hereby
replies to the comments submitted in response to in the
Order Inviting Comments ("OIC"), FCC 93-492, released
November 12, 1993.¹

The parties subject to the Commission's depreciation
rules are in universal agreement that the Basic Factor Range
Option ("BFRO"), as proposed to be implemented in the OIC,
will result in no significant simplification.² Indeed,
several parties comment that the application of the proposed
ranges to certain small accounts will actually increase the
burden on the Commission and carriers, when compared with

¹Comments were submitted by the Ameritech Operating
Companies ("Ameritech"); the Bell Atlantic telephone
companies ("Bell Atlantic"); BellSouth; GTE Service
Corporation ("GTE"); MCI Telecommunications ("MCI"); the
Missouri Public Service Commission ("Missouri"); the
National Association of Regulatory Utility Commissioners
("NARUC"); New York Telephone Company and New England
Telephone and Telegraph Company ("NYNEX"); the Oklahoma
Corporation Commission, Public Utility Division ("Oklahoma")
Pacific Bell and Nevada Bell ("Pacific"); Southern New
England Telephone Company ("SNET"); Southwestern Bell
Telephone Company ("SWBT") U S WEST Communications, Inc.
("U S WEST"), the United States Telephone Association
("USTA") and the Utah Division of Public Utilities ("Utah").

²Ameritech at 1-3; BellSouth at 2-4; GTE at 2; NYNEX at
2-3; U S WEST at 2-4; SNET at 5.

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the streamlined methods applied to those accounts in recent represcription proceedings.³ Additionally, U S West at 4, points out that the account most affected by technology change and competition have been omitted from range treatment. The digital switching, digital circuit and buried cable-metallic accounts comprise approximately 47% of U S West's investment. U S West at 5, Table B shows informal ranges already used by the Commission and recommends that these ranges could be used as a starting point to add the technology accounts, even though the lives are not forward looking. BellSouth would concur with this approach if all jurisdictions' data points were included. See BellSouth Comments at pp. 1 and 3. These accounts, along with aerial metallic cable, should be added to the range accounts as they represent approximately 60% of BellSouth's total assets.

Several parties, including BellSouth, point out that the accounts selected for initial range treatment are generally smaller accounts that represent only a limited potential for improvement in capital recovery.⁴ As recognized by Utah, "real simplification and potential time

³Ameritech at 4; NYNEX at 2-3; Pacific at 3.

⁴Ameritech at 1-2; Bell Atlantic at 2; NYNEX at 2-3; Pacific at 2-4; SWBT at 5; U S WEST at 2-4; SNET at 5; USTA at 9.

and expense savings of the process cannot be realized without all accounts being included in the process."⁵

The principal problem with the ranges proposed in the OIC is that the lower ends of the ranges are too high. As Bell Atlantic demonstrates, the OIC proposes a 25 year minimum for the low end of the projected life range for underground copper cable. This would not result in this account being fully depreciated until the year 2030.⁶ This is far too long for an account that is rapidly being replaced by fiber technology. By contrast, AT&T has a projected life of less than 10 years for this account.⁷

U S WEST includes in its Table C the lives that it has adopted for financial reporting purposes after it discontinued following SFAS-71 in September 1993.⁸ These lives represent a far more realistic lower bound for projected life ranges than those contained in the OIC. BellSouth proposed comparable projection lives for these accounts during its 1992 and 1993 represcriptions. These proposed lives are far more realistic than those contained

⁵Utah at 1.

⁶Bell Atlantic at 5-7.

⁷Ameritech notes that the Commission expressed its intent to consider additional information in establishing the ranges, but apparently did not do so. As a result, the Commission is prescribing different projection lives for the LECs and AT&T, even when the companies use similar equipment and provide similar services. Ameritech at 5.

⁸U S WEST at 8.

in the OIC. The Commission should reduce the lives on the lower end of the ranges to encompass such realistic, forward looking projections if simplification is to have any substance.⁹ See "Attachment 1" for a comparison of the current BellSouth prescribed ranges, proposed FCC ranges, BellSouth requested values and percentage of BellSouth assets that could be affected.

NYNEX demonstrates that regulators and carriers no longer control the pace of introduction of new technology. New technology introduction is dictated by the market.

NYNEX's competitors initiate service to customers using up-to-date, state-of-the-art technological platforms, free from the constraints of replacing obsolete technology and recovering capital previously expended in such technology. Moreover, although the equipment used by competitors is frequently identical to that used by NYNEX, the depreciation lives used by cable companies and ALTs generally range from one-half to one-third of the lives prescribed for NYNEX by the Commission. Even NYNEX's prescribed equipment lives for older, obsolete equipment are frequently longer than its competitors' lives for modern equipment.¹⁰

Utah recognizes that the need to meet national and international market and technological demands "is now effecting all LEC service areas."¹¹

⁹If the Commission is unwilling to use forward looking data to establish the proposed ranges, BellSouth concurs with U S WEST that the Commission should only use the most recent historical prescriptions to establish the ranges. U S WEST at 6-7.

¹⁰NYNEX at 7-8.

¹¹Utah at 2.

Corporations that continue to make investment decisions based on current forms of regulation are committing compatibility and competitive suicide for the future.¹²

The Commission must take these factors into account in prescribing the ranges for LEC projection lives and future net salvage.

MCI recognizes that those carriers who have aggressively invested in network modernization may not be able to avail themselves of the benefits of the BFRO, but dismisses this critical shortcoming in a footnote suggesting that this is an issue to be addressed on reconsideration rather than in this implementation proceeding.¹³ To the contrary, the Commission is using this proceeding to establish the boundaries of the ranges that will be used to initiate the BFRO. There is no reason to establish ranges that are too narrow and too high to be of benefit to the LECs who are aggressively investing in the backbone of the National Information Infrastructure. MCI offers no policy or legal reason to defer addressing this critical shortcoming of the proposed ranges.

Ironically, MCI argues:

If the Commission were to adopt ranges that were too wide, those carriers who have lagged behind the industry in network investment would be able to take advantage of ranges that reflected the accelerated depreciation that resulted from the more aggressive investment plans of other

¹²Id.

¹³MCI, fourth unnumbered page, footnote 10.

LECs. This increased flexibility could inappropriately reward carriers for modernization they did not pursue.¹⁴

As BellSouth pointed out in its initial comments, there is no danger of carriers "taking advantage" of ranges that are too wide, because the Commission is requiring companies to select basic factors that reflect the company's operations, whether or not such factors are within the ranges.¹⁵ Thus, a company whose investment patterns do not support a factor within the ranges because it has "lagged behind the industry" will be required to file a full study.

The far more dangerous reality is that those carriers that have aggressively invested in their networks will be deprived of any benefit from the Commission's simplification efforts. MCI is patently wrong when it concludes that the proposed ranges are reasonable "because both the ranges and the current depreciation methodology appropriately reward carrier modernization efforts."¹⁶

MCI's failure to recognize the shortcomings of the proposed ranges may result from its fundamental misunderstanding of the depreciation process itself. For example, MCI asserts in footnote 11 that carriers benefit from higher depreciation expenses "by increasing their rate bases." The rate base includes the interstate portion of

¹⁴MCI at fourth unnumbered page.

¹⁵BellSouth at 4-6.

¹⁶MCI, fourth and fifth unnumbered pages.

LEC investment in Accounts 2001 and 2002 "net of accumulated depreciation and amortization ..."¹⁷ Thus, increased depreciation expense reduces, not increases, the rate base.

More significantly, MCI characterizes adequate depreciation as a "reward" for modernization. To the contrary, adequate depreciation reflects the right of a carrier to recover its past investment. That right exists whether or not the carrier makes future investments. The primary connection between depreciation and future investment occurs when investors see a pattern of deferred capital recovery, as has been the case for the LECs. In that case, investors must weigh the risk of delayed recovery or nonrecovery before making additional investments in the carrier. Such a perceived risk also increases the cost of capital. If the Commission wants to encourage new capital investment, it must break with history and adopt depreciation methods that reflect the present and future realities of the telecommunications marketplace.

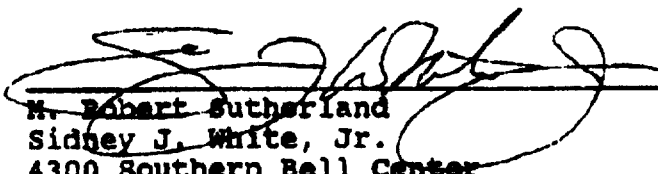
BellSouth strongly recommends the Commission's consideration of the methods proposed by Technology Futures, Inc. in its study Telecommunications Equipment Depreciation-Looking to the Future which was attached to the USTA comments in this proceeding. By using the "forward-looking" methodology contained in this document to set the ranges of the account lives of LECs' investment, significant capital

¹⁷47 C.F.R. sec. 65.820.

recovery simplification and reform can take place, thereby setting the stage for additional infrastructure investment. The BFRO proposals as currently outlined in this proceeding are a woefully inadequate beginning in this direction.

Respectfully submitted,

BELLSOUTH TELECOMMUNICATIONS, INC.
By its attorneys:



~~M. Robert Sutherland~~
Sidney J. White, Jr.
4300 Southern Bell Center
675 West Peachtree Street, N.E.
Atlanta, Georgia 30375
(404) 529-5094

January 21, 1994

ATTACHMENT 1

PCC PROJECTION LIVES

| Account Name | PCC 83-296 | | PRESCRIBED BST | | PROPOSED IN STUDIES | | % OF BST ASSET |
|---------------------------|---------------|------|-------------------|------|------------------------|------|-------------------|
| | High | Low | High | Low | High | Low | |
| Motor Vehicles* | 9.0 | 7.0 | - | - | - | - | - |
| Motor Vehicles-Light | - | - | 8.3 | 6.4 | 8.3 | 6.4 | 0.43 |
| Motor Vehicles-Other | - | - | 12.0 | 8.5 | 12.5 | 8.5 | 0.39 |
| Aircraft | 10.0 | 7.0 | 10.0 | 6.9 | 10.0 | 6.9 | 0.08 |
| Spec. Purpose Vehicle | 18.0 | 12.0 | 18.0 | 15.0 | 18.0 | 15.0 | 0.00 |
| Garage Work Eq. | 18.0 | 12.0 | 23.0 | 15.0 | 28.0 | 15.0 | 0.04 |
| Other Work Eq. | 18.0 | 12.0 | 22.0 | 15.0 | 28.0 | 15.0 | 0.06 |
| Furniture | 20.0 | 15.0 | 20.0 | 11.0 | 20.0 | 11.0 | 0.11 |
| Office Support Eq. | 15.0 | 10.0 | 13.5 | 8.8 | 13.5 | 8.8 | 0.16 |
| Official Comm. Eq. | 10.0 | 7.0 | 9.1 | 6.0 | 9.1 | 6.0 | 0.10 |
| Genl. Pur. Computers | 8.0 | 6.0 | 7.0 | 6.0 | 7.0 | 6.0 | 4.70 |
| Radio Systems | 15.0 | 9.0 | 14.5 | 8.2 | 14.5 | 7.0 | 0.39 |
| Circuit-Digital Data Svc. | 11.0 | 7.0 | 11.0 | 8.0 | 11.0 | 8.0 | 0.20 |
| Circuit-Analog® | 11.0 | 8.0 | - | - | - | - | - |
| Station Apparatus | 8.0 | 6.0 | 11.0 | 8.0 | 11.0 | 6.0 | 0.01 |
| Large PBX | 8.0 | 6.0 | 6.0 | 3.8 | 8.0 | 3.8 | 0.12 |
| Public Telephone | 10.0 | 7.0 | 6.0 | 6.0 | 6.0 | 6.0 | 0.66 |
| Other Terminal Eq. | 8.0 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 | 0.81 |
| Aerial Cable-Fiber | 30.0 | 25.0 | 30.0 | 25.0 | 30.0 | 25.0 | 0.89 |
| Underground Cable-Met. | 30.0 | 25.0 | 26.0 | 24.0 | 17.5 | 12.0 | 8.96 |
| Underground Cable-Fiber | 30.0 | 25.0 | 30.0 | 30.0 | 30.0 | 25.0 | 1.35 |
| Buried Cable-Fiber | 30.0 | 25.0 | 30.0 | 28.0 | 30.0 | 25.0 | 1.24 |
| Submarine Cable | 30.0 | 25.0 | 28.0 | 18.5 | 28.0 | 18.5 | 0.08 |
| Conduit | 60.0 | 50.0 | 65.0 | 55.0 | 65.0 | 55.0 | 5.04 |

* In BST States. Lives are prescribed for Motor Vehicles-Light and Motor Vehicles-Other.

® BST States Lives are prescribed for Circuit-Other, which includes Circuit-Analog Investment, as well as investment for other categories of Circuit Equipment.

CERTIFICATE OF SERVICE

I hereby certify that I have this 21st day of January, 1994 serviced all parties to this action with a copy of the foregoing REPLY COMMENTS in reference to CC 92-296, by placing a true and correct copy of the same in the United States Mail, postage prepaid, addressed to the parties as set forth on the attached service list.

Darlene A. Martin

Darlene A. Martin

SERVICE LIST

CC 92-296

***Reed E. Hundt**
Federal Communications Commission
Room 814
1919 M Street, N.W.
Washington, DC 20054

***Jeffrey H. Hoagg**
Federal Communications Commission
Room 826
1919 M Street, N.W.
Washington, DC 20054

***James H. Quello**
Federal Communications Commission
Room 800
1919 M Street, N.W.
Washington, DC 20054

***Ervin S. Duggan**
Federal Communications Commission
Room 832
1919 M Street, N.W.
Washington, DC 20054

***Kathleen B. Levitz**
Federal Communications Commission
Room 500
1919 M Street, N.W.
Washington, DC 20054

***Andrew C. Barrett**
Federal Communications Commission
Room 826
1919 M Street, N.W.
Washington, DC 20054

***Sonja J. Rifken**
Federal Communications Commission
Room 257
1919 M Street, N.W.
Washington, DC 20054

***Fatima K. Franklin**
Federal Communications Commission
Room 257
1919 M Street, N.W.
Washington, DC 20054

***Kenneth P. Moran**
Federal Communications Commission
Room 812
1919 M Street, N.W.
Washington, DC 20054

***Accounting & Audits Division**
Federal Communications Commission
2000 L Street, N.W.
Washington, DC 20036

***International Transcription
Services, Inc.**
Suite 140
2100 M Street, N.W.
Washington, DC 20037

Deborah S. Waldbaum
James R. Lewis
5th Floor
1515 Sherman Street
Denver, CO 80203

Francine J. Berry
Robert J. McKee
Peter H. Jacoby
American Telephone and Telegraph Company
Room 3244J1
295 North Maple Avenue
Basking Ridge, NJ 07920

Fred K. Konrad
Ameritech Operating Companies
Suite 730
1060 Connecticut Avenue, N.W.
Washington, DC 20036

Floyd S. Keene
Barbara J. Kern
Ameritech Operating Companies
Room 4H88
2000 West Ameritech Center Drive
Hoffman Estates, IL 60196

Christopher W. Savage
Edward D. Young
Bell Atlantic Telephone Companies
1710 H. Street, NW
Washington, DC 20006

Sharon L. Nelson
Richard D. Casad
Washington Utilities and
Transportation Commission
Post Office Box 47250
Olympia, WA 93504-7250

Peter Arth, Jr.
Edward W. O'Neill
Ellen S. Levine
California Public Utilities
Commission
505 Van Ness Avenue
San Francisco, CA 94102

Robert E. Temmer
Colorado Public Utilities
Commission
Office Level 2
1580 Logan Street
Denver, CO 80203

Deloitte & Touche
1900 M Street, N.W.
Washington, DC 20036

Elizabeth Dickerson
MCI Telecommunications
Corporation
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

Ronald G. Choura
Michigan Public Service Commission
6545 Mercantile Way
Post Office Box 30221
Lansing, MI 48909

JoAnn S. Hanson
Minnesota Department of Public
Service
Suite 200
121 7th Place East
St. Paul, MN 55101-2145

Frank W. Lloyd
Mintz, Levin, Cohn, Ferris,
Glovsky and Popeo
Suite 900
701 Pennsylvania Avenue, N.W.
Washington, DC 200040

Eric Witte
Missouri Public Service Commission
Post Office Box 360
Jefferson City, MO 65102

Paul Rodgers
Charles D. Gray
James Bradford Ramsay
NARUC
Post Office Box 684
1102 ICC Building
Washington, DC 20044

Frank E. Landis
Nebraska Public Service
Commission
300 The Atrium
Lincoln, NE 68508

Susan E. Wefald
Leo M. Reinbold
Bruce Hagen
N. Dakota Public Service Commission
State Capital
Bismarck, ND 58505

Mary McDermott
Campbell L. Ayling
NYNEX Bloomingdale Road
White Plains, NY 10605

Marlbeth D. Snapp
Oklahoma Corporation Commission
Public Utility Division
400 Jim Thorpe Office Building
Oklahoma City, OK 73105

Ron Eachus
Joan H. Smith
Roger Hamilton
Oregon Public Utility Commission
550 Capitol Street, N.E.
Salem, OR 97310-1380

James P. Tuthill
Lucille M. Mates
Pacific/Nevada Bell
Room 1526
140 New Montgomery Street
San Francisco, CA 94105

William F. Adler
Sherry L. Herauf
Pacific Telecise Group-Washington
Suite 400
1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

James L. Wurtz
Pacific/Nevada Bell
1275 Pennsylvania Avenue, N.W.
Washington, DC 20004

Philip F. McClelland
Laura Jan Goldberg
Pennsylvania Office of Consumer
Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Rowland L. Curry
Public Utility Commission of Texas
7800 Shoal Creek Boulevard
Austin, TX 78757

Scot Cullen
Public Service Commission
of Wisconsin
4802 Sheboygan Avenue
Post Office Box 7854
Madison, WI 53707-7854

Laska Schoenfelder
Kenneth Stofferahn
James A. Burg
South Dakota Public Utilities
Commission
State Capitol Building
Pierre, SD 57501

Linda D. Hershman
Southern New England Telephone
Company
227 Church Street
New Haven, CT 06510

Michael McRae
District of Columbia Office
of People's Counsel
Suite 500
1133 15th Street, N.W.
Washington, DC 20005

Charles Beck
Earl Poucher
Florida Office of Public Counsel
812 Claude Pepper Building
111 West Mochian Street
Tallahassee, FL 32399

Thomas E. Taylor
William D. Baskett III
Christopher J. Wilson
Frost & Jacobs
2500 PNC Center, 201 E 5th St.
Cincinnati, OH 45202

Allis B. Latimer
Vincent L. Crivella
Michael J. Ettner
General Services Administration
Room 4002, 18th & F Street, N.W.
Washington, DC 20405

Richard McKenna
GTE Service Corporation
Post Office Box 152092
Irving, TX 75015-2092

Gail L. Polivy
GTE Service Corporation
Suite 1200
1850 M Street, N.W.
Washington, DC 20036

Stephanie Miller
Idaho Public Utilities
Commission
Statehouse
Boise, ID 83720-6000

Tim Seat
Indiana Office of Utility Consumer
Room N 501
100 North Senate Avenue
Indianapolis, IN 46204

Brian R. Moir
International Communications
Association
Suite 810
1255 23rd Street, N.W.
Washington, DC 20037-1170

James R. Maret
David R. Conn
Lucas State Office Building
Des Moines, IA 50319

Thomas F. Peel
Utah Division of Public Utilities
Post Office Box 45807
160 East 300 South
Salt Lake City, UT 84145-0807

James E. Taylor
Richard C. Hartgrove
Bruce E. Beard
Southwestern Bell Telephone Company
Suite 3520
One Bell Center
St. Louis, MO 63101

Edward C. Addison
William Irby
Virginia State Corporation
Commission Staff
Post Office Box 1197
Richmond, VA 23209

Michael P. Gallagher
State of New Jersey Board of
Regulatory Commissioners
CN 350
Trenton, NJ 08623-0380

U S West
James T. Hammon Suite 700
1020 19th Street, N.W.
Washington, D.C. 20036

Jerry Webb
State of Indiana Utility Commission
Room E306
302 West Washington Street
South Indiana Government Building
Indianapolis, IN 46204

Austin J. Lyons
Tennessee Public Service Commission
460 James Robertson Parkway
Nashville, TN 37243-0505

Jay C. Keithley
United Telephone-Southeast, Inc.
Suite 1100
1850 M Street, N.W.
Washington, DC 20036

W. Richard Morris
United Telephone-Southeast, Inc.
Post Office Box 11315
Kansas City, MO 64112

Martin T. McCue
United States Telephone Association
Suite 600
1401 H Street, N.W.
Washington, DC 20005

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